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With CONFIDENTIAL ATTACHMENT**EXPEDITE**MEMORANDUM FOR DAVID E. PICKFORD  
Executive Secretary  
Department of the Treasury

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SUBJECT: Senior Interdepartmental Group on  
International Economic Policy (SIG-IEP)

Attached are comments prepared by the National Security Council staff on the five discussion papers circulated by the Department of State for the September 16 SIG-IEP meeting on pipeline sanctions.

In the interest of time, we are transmitting copies of this package to the other members of the SIG-IEP as noted below.

*Michael O. Wheeler*  
Michael O. Wheeler  
Staff Secretary

Attachment

cc: The Vice President  
B The Secretary of State  
D The Secretary of Defense  
— The Secretary of Agriculture  
— The Secretary of Commerce  
— The Attorney General  
— The Director, Office of Management and Budget  
— Chairman, Council of Economic Advisors  
— Assistant to the President for Policy Development  
United States Trade Representative  
A Director of Central Intelligence

NSC review completed - may be  
declassified in part

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WASHINGTON, D.C. 20505

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September 15, 1982

Comments on State SIG-IEP Papers

Conceptual Transition

The repression in Poland is both a tragedy for the Poles which the Western world cannot disregard and a manifestation of the repressive nature of the Soviet system which requires an enduring response from the West. In upcoming discussions with the allies, the U.S. should seek to construct unified Western positions which will both penalize the Soviet Union for their actions in Poland and establish a new basis for the conduct of East-West economic relations which protects Western security and economic interests.

The current Poland-related sanctions against the USSR are far from ideal, both in their impact on the American business community and relations with European allies. However, the sanctions do punish the Soviet Union economically and draw attention to its egregious behavior in Poland in a significant and necessary way. The U.S. is willing to replace these sanctions with a set of equivalent or firmer measures agreed to by all the Western allies and Japan that not only maintain pressure on the Soviet Union and Poland but accomplish the fundamental shift to more enduring and unified East-West economic policies. This new sanctions package toward the USSR would no longer be entirely tied directly to events in Poland. A portion would be of a short-term nature linked to events in Poland: a highly selective embargo on any new Soviet purchases of specific types of oil and gas equipment; the sanctions of all Western countries directed against Poland.

Equivalent Sanctions Package

The proposed substitute measures would include the following elements:

A. Short-term measures linked to events in Poland:

1. A highly selective embargo on oil and gas equipment and technologies, with a commitment that preferred suppliers of this equipment will not be undercut by other Western countries. Burden-sharing should be emphasized in the selection process as this competitive sector of U.S. industry should not be unilaterally curtailed.

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B. Longer-term measures

1. An agreement that Western countries will not commit to any incremental deliveries of Soviet gas beyond the amount presently contracted for and cooperate in the accelerated development of alternative Western energy resources, principally Norwegian gas reserves. In this connection, we should seek assurances from Western Europe that they will not take deliveries beyond 30 BCM currently envisioned from the first strand and will not participate in the construction of, or purchase of gas from, a second strand of the Siberian gas pipeline project.
2. An agreement that builds on the recent OECD agreements substantially raising interest rates to the USSR to achieve a "cap" on officially-backed credits (can only offset maturing loans), higher downpayments, shortened maturities and an established framework to monitor this process.
3. An agreement to harmonize national licensing procedures for COCOM and improve the coordination and effectiveness of international enforcement efforts. Selective "critical" oil and gas equipment may be added to the COCOM list.

Approach to the Allies

The September 26 meeting of Secretary Shultz with the Quint foreign ministers is envisioned as an initial exchange of views, rather than a lengthy bargaining session. We have made it clear to the Europeans that we expect them to come to us with proposals. However, when the discussion turns to U.S. expectations for a solution of the present impasse, Secretary Shultz could "as an illustrative example" outline the package described above, and as an illustrative example, say that in exchange for this package the United States would be willing to drop the specific aspects of the current sanctions package which are most harmful to European economic interests: the temporary denial orders, the extraterritorial applications of the oil and gas sanctions, and the retroactive application of the oil and gas sanctions. It would be clear that failing an agreement of this type, the United States would continue the current package of sanctions and denial orders, and the same package would remain available, in case there were any backsliding on any agreement, once completed. The U.S. and European sanctions directed against the Polish government would remain in force.

Public Affairs Program

Although it is premature to establish a public affairs strategy to address this potential "transition" in our Poland-related

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sanctions, it may be useful for illustrative purposes only to demonstrate how such a transition could be presented:

-- The recent increased repression in Poland has catalyzed a fundamental reappraisal of East-West economic relations by the allies. The events in Poland are symptomatic of the repressive nature of the Soviet Union and require a more enduring Western response than embodied in the present sanctions.

-- As a result of high-level consultations with the allies, it was agreed that the character of our reaction to egregious Soviet behavior in Poland would be adjusted to reflect the need for longer-term unified allied positions on East-West economic relations, although some of our measures will remain tied to developments in Poland.

-- These new measures are consistent with our objective of advancing reconciliation in Poland and demonstrate the unwillingness of the West to conduct normal or preferential trade relations which enhance the USSR's ability to sustain its unprecedented military buildup or aggressive geopolitical behavior of which Poland is a primary example.

-- These new measures represent a "victory" for both halves of the Atlantic Alliance.

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